



Construction & Materials Outlook

WASHTO Meeting

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Current economic influences

- Muni bond market has improved since September, but not bank lending
- Rising vacancies for office, retail, hotel
- Tax revenue shortfalls → deeper spending cuts
- No job growth, rising unemployment
- Stimulus (details: www.agc.org/stimulus)



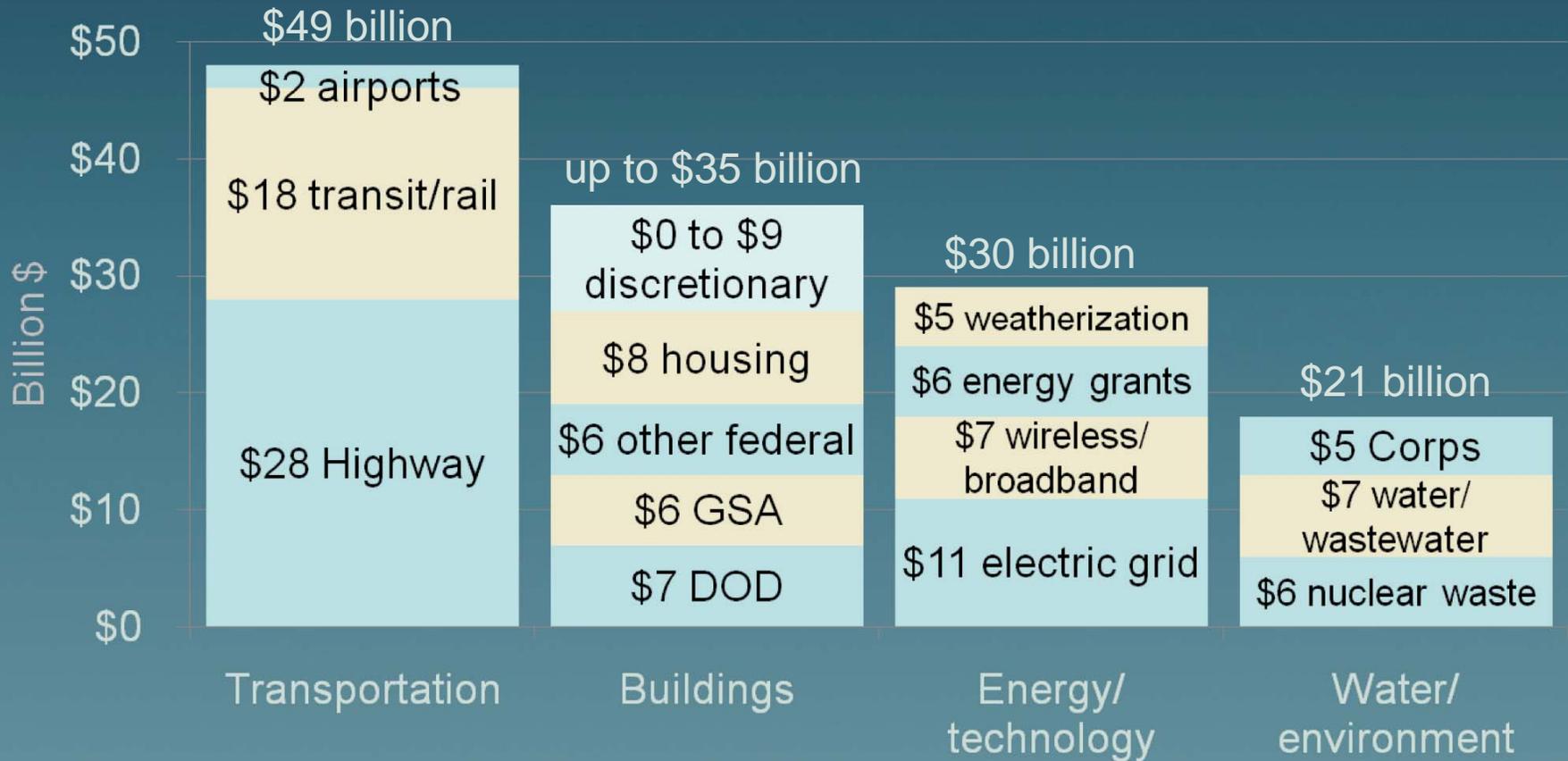
Economic stimulus package

Total : \$787 billion in spending increases, tax cuts

- **\$308 billion in appropriated spending**
- **\$267 billion in direct spending (refundable portion of tax credits, unemployment benefits, Medicaid reimbursement to states, etc.)**
- **\$212 billion in tax cuts**



Construction-related stimulus funding (Total \$135+ billion)





Stimulus tax provisions affecting construction

- 1-year delay (to 2012) in 3% withholding on gov. contracts
- Increased expensing
- Net operating loss: 5-year carryback of 2008 NOL for small business (<\$15 mil. in gross receipts)
- Qualified school construction bonds
- “Build America” bonds
- Bonds for “recovery zones,” tribal areas, renewable energy, energy conservation
- Modified renewable energy, conservation credits



Stimulus timing, strings

- **Timing**
 - Highway bid lettings, some projects underway
 - Agencies have announced many projects or grants
- **Conditions**
 - Davis-Bacon
 - Buy American
 - Reporting requirements: jobs, executives' pay
 - No E-Verify requirement or broad-based FAR
 - No project labor agreement mandate, but...



Economic impact of nonresidential construction

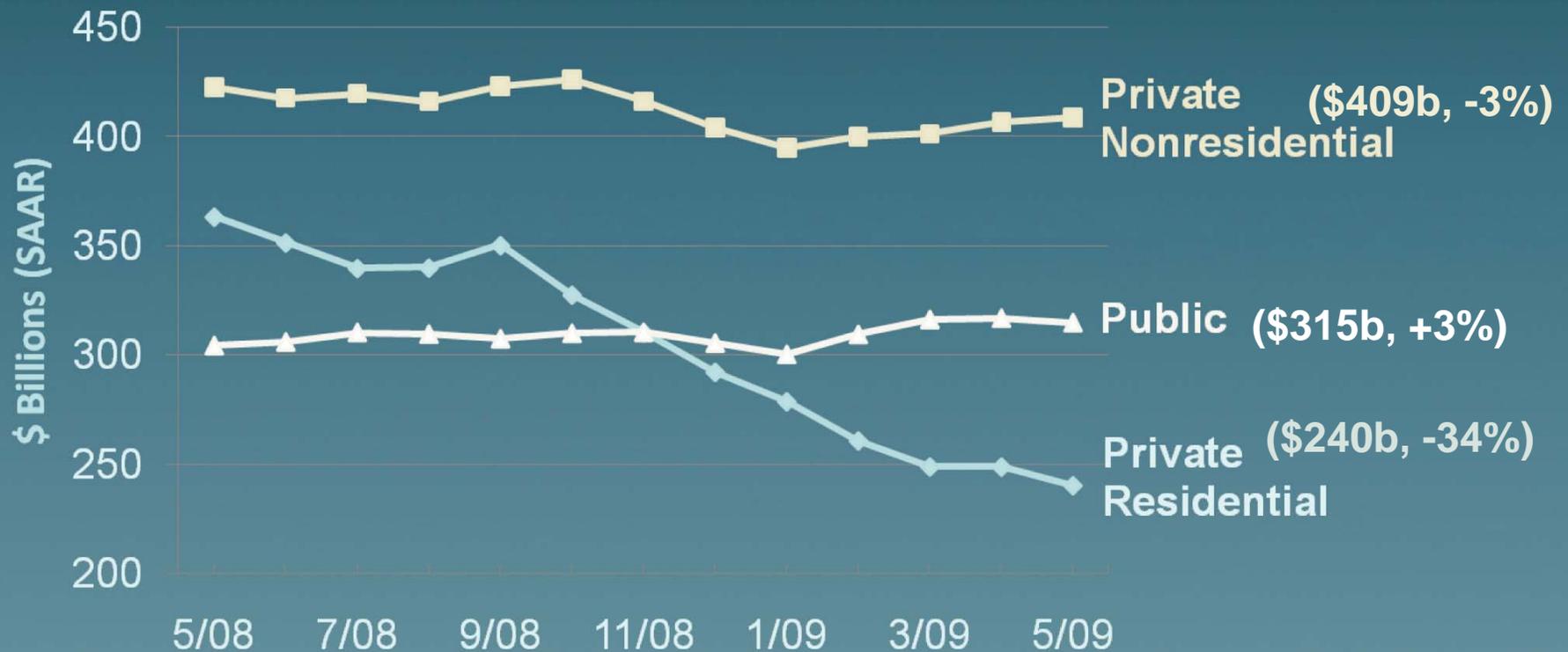
- **Jobs:** 28,500 per \$1 billion
 - 1/3 direct, onsite construction
 - 1/6 indirect supplying industries
 - 1/2 induced by direct, indirect spending
- **GDP:** \$3.4 billion
- **Personal Earnings:** \$1.1 billion



The shifting construction market

(construction spending, seasonally adjusted annual rate)

May 2009: \$964 billion, 12-month change: -12%



Source: Census Bureau



Housing outlook

- **SF: starts, permits in May hit 6-mo highs; totals should begin to top year-ago figures in late '09**
- **MF: No improvement likely until '11**
 - Rental demand hurt by job losses among would-be renters
 - Supply swelled by owners who are trying to rent out houses and condos
 - Banks remain unwilling to lend to developers



Nonres totals, share, 1- & 12-month change



	5/09 Total	Share	vs. 4/09	vs. 5/08
Nonresidential total	\$717 billion	100%	0%	0%
Educational	109	15	+ 1	+ 4
Power	92	13	+ 2	+ 13
Manufacturing	89	12	+ 4	+ 55
Highway and street	79	11	- 1	- 1
Commercial	64	9	- 5	- 28
Office	61	9	- 1	- 12
Health care	48	7	0	+ 2
Transportation	34	5	+ 1	+ 1
Lodging	31	4	- 3	- 18
Sewage and waste disposal	26	4	0	+ 6
Communication	21	3	0	- 29
Other (amusement/recreation; water; public safety; relig.; conservation): 7% of total				



Construction spending: industrial, heavy



Manufacturing

1-month: 4.3%
 12-month: 55.2%



Power

1-month: 2.1%
 12-month: 12.6%



Sewage/Waste Disposal

1-month: 0.0%
 12-month: 5.7%



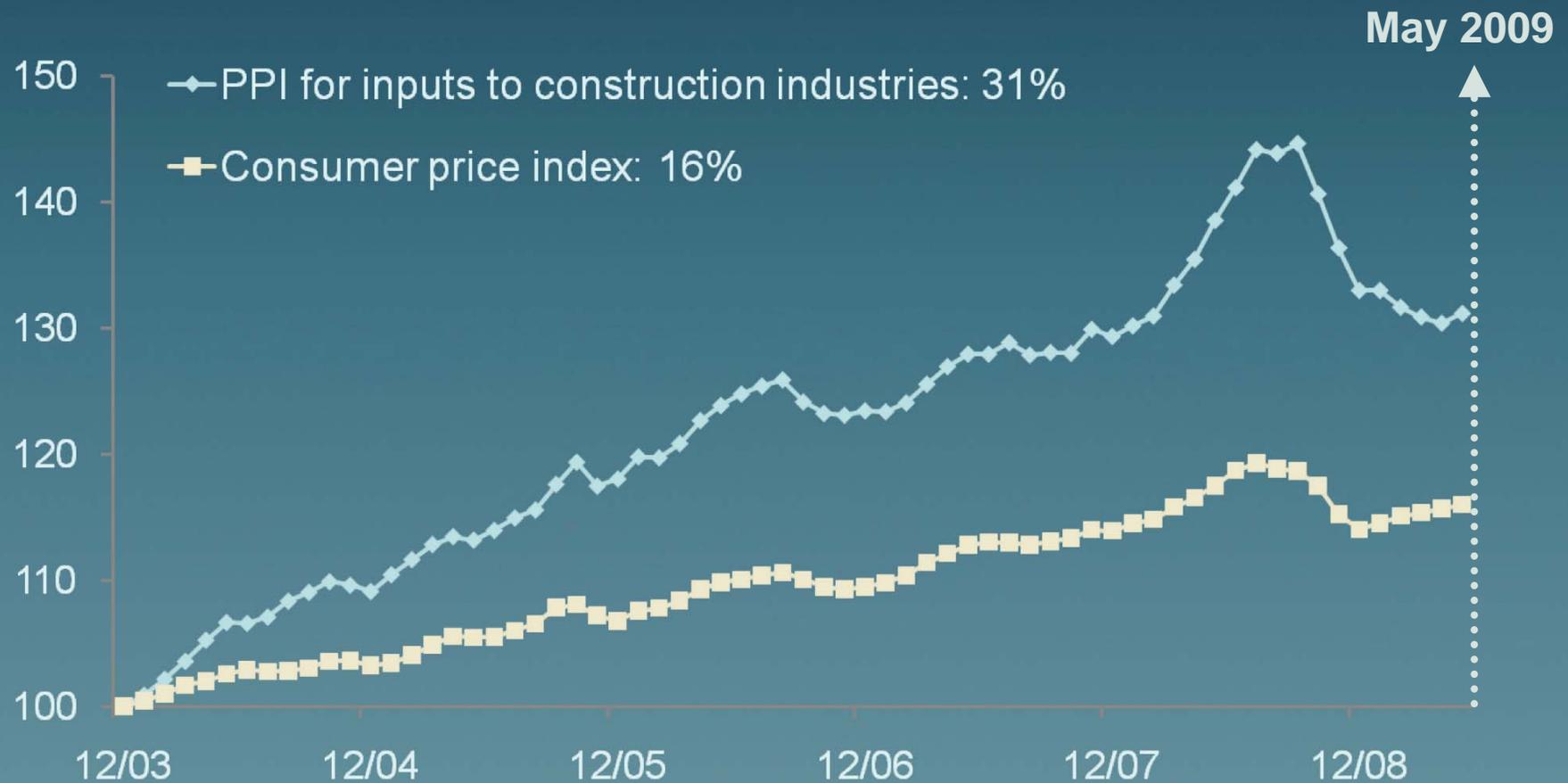
Transportation

1-month: 1.4%
 12-month: 1.3%





Change in producer prices for construction vs. consumer prices, 2003 - 2009 (December 2003 = 100)



Source: BLS (CPI, PPI)



Producer price indexes, 1/07-6/09



Inputs to construction industries

1-month: 1.0%
 12-month: -6.1%



Highway & street construction

1-month: 3.0%
 12-month: -11.0%



Other heavy construction

1-month: 1.4%
 12-month: -11.4%



Nonresidential buildings

1-month: 0.9%
 12-month: -6.6%





Producer price indexes, 1/07-6/09

No. 2 Diesel Fuel

1-month: 14.6%
 12-month: -54.6%



Steel Mill Products

1-month: -0.7%
 12-month: -38.5%



Asphalt Paving Mixtures & Blocks

1-month: -0.6%
 12-month: 2.7%



Concrete Products

1-month: 0.1%
 12-month: 1.9%





Asphalt price indicators, 2007 - 2009



Liquid asphalt PPI

1-month: 6.4%
 12-month: -16.6%



IL DOT bituminous index

1-month: 5.9%
 12-month: -31.0%



Asphalt paving PPI

1-month: -0.6%
 12-month: 2.7%



NM DOT asphalt index

1-month: 3.1%
 12-month: N/A





Outlook for materials in '09 compared to '08

- Lower average prices: diesel, copper, steel, aluminum
- Possible increases: concrete, gypsum
- Uncertain: asphalt
- Year-over-year PPI change: -4% to 0%
- A limited-time sale...



Outlook for materials (beyond 2009)

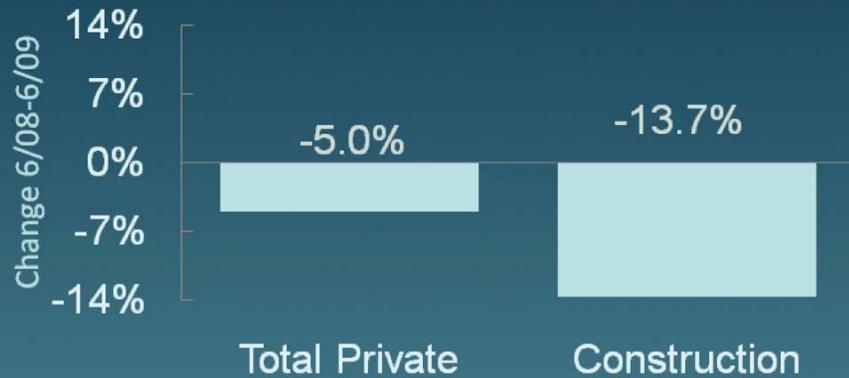
- **Industry depends on specific materials that:**
 - are in demand worldwide
 - have erratic supply growth
 - are heavy, bulky or hard to transport
- **Construction requires physical delivery**
- **Thus, industry is subject to price spurts, transport bottlenecks, fuel price swings**
- **Expect 6 to 8% PPI increases, higher spikes**



Construction jobs fall, but wages rise (seasonally adjusted)



Employment



Average Hourly Earnings



Unemployment Rate (not seas. adj.)



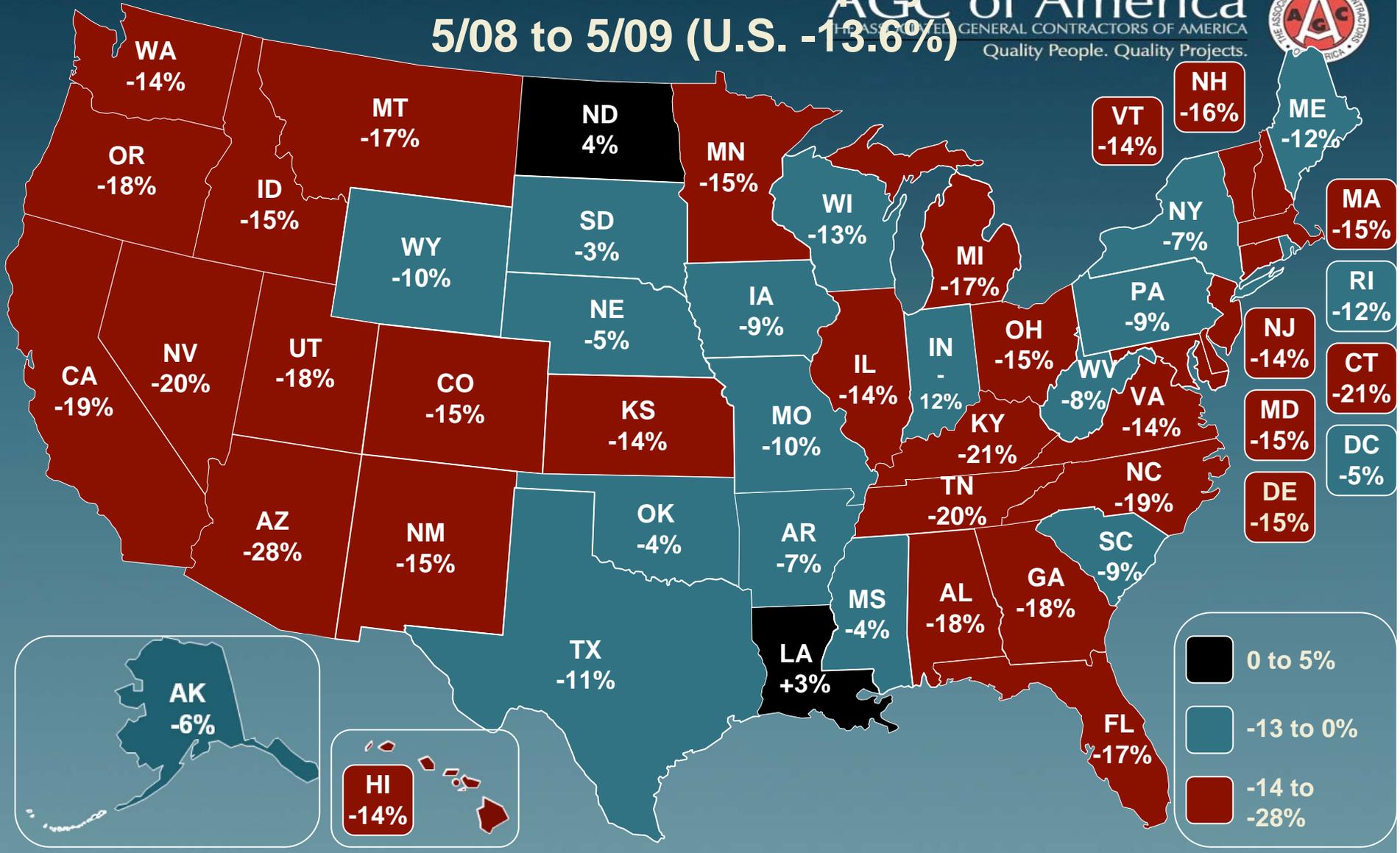
12-month % change in construction & A/E jobs (seas. adj.)





State Construction Employment

5/08 to 5/09 (U.S. -13.6%)





Summary for 2009

- Nonres spending: -3 to -9% (up: power, BRAC, stimulus; down: private, state & local gov-funded)
- Res: -2 to +2% (SF up in 2d half, MF down all year)
- Total construction spending: -1% to -7%
- Materials costs: -4% to 0%
- Labor costs: +3% to +4%



Summary for 2010

- **Nonres spending: 0 to -5%** (more stimulus put in place, maybe gains in retail, higher ed, hosp)
- **Res: +5 to +10%** (SF up, MF down all year)
- **Total construction spending: -4% to +2%**
- **Materials costs: 0% to +8%**
- **Labor costs: +3% or less**



AGC economic resources (sign up by email to simonsonk@agc.org)

- **The Data DIgest: weekly one-page email**
- **PPI tables: emailed monthly**
- **State and metro data**
- **Stimulus information: www.agc.org/stimulus**
- **Webinars (next: Thurs., 7/23 , 2-3:30 PM ET)**
- **Feedback on stimulus jobs, credit market**